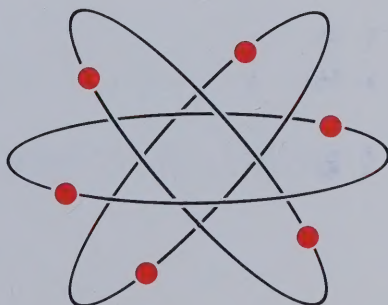


AR18

**1978
ANNUAL
REPORT**



NUMAC
OIL & GAS LTD.

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COMPANY PROFILE

Numac Oil & Gas Ltd., incorporated in Alberta, is primarily a Canadian-owned and Edmonton-based natural resource company whose main area of interest and activity is in Western Canada. Since its incorporation in 1963, the Company has maintained an increasingly active exploration program for oil, gas and uranium, including the acquisition of strategic licences and leases in areas of high potential. This continuing program has now put Numac in a key position to capitalize on large oil and gas reserves in Alberta, British Columbia and the Mackenzie Delta, and an interest in what appears to be the largest and richest uranium mine in Saskatchewan. This policy has also provided the Company with an excellent position in the oil sands at Surmont (north of Cold Lake). The majority of the Company's gas reserves are capped pending market arrangements.

In addition to the Midwest Lake discovery, Numac is involved in exploring for uranium in other areas of Northern Saskatchewan.

The Company's shares are listed on the Toronto and American Stock Exchanges.

AR18

core holes have been drilled, 51 of them encountering radioactive material. Mineralization has been found over a length of 4,500 feet in widths of less than 200 to over 500 feet. The total length and width of the deposit, however, are still undetermined. Thicknesses encountered thus far have been up to 189 feet while grades have ranged from 1/2 to 573 pounds per ton.

Esso Minerals, the operator, expects that the current drilling program may continue into December or longer to help better determine the overall dimensions of the deposit and to give a more detailed definition of the ore body.

Numac is obligated to pay only 10% of the costs through to production, but has an additional 15% carried interest free through to and including the mill for a total Numac interest of 25%.

STOCK SPLIT AND DIVIDEND INCREASE

At a Directors' Meeting held on June 28, 1978 the Directors recommended that the shareholders approve a stock split on a two for one basis; meaning an additional share be issued for each share presently held. An Extraordinary General Meeting of Shareholders will be held on August 17, 1978 to vote on the proposal.

The Directors confirmed their intention to declare and pay, subject to regulatory authority, the second semi-annual dividend of 15¢ (Canadian) per share prior to December 31, 1978. Further, the Directors stated their intention to increase the semi-annual dividend of the Company from 15¢ to 20¢ per share for the fiscal year 1979. This would increase the total dividend payments for 1979 from 30¢ to 40¢ based on the present outstanding capital of the Company.

W. S. McGregor

Edmonton, Alberta
August 9, 1978

W. S. McGregor
President

Report to Shareholders

SIX MONTHS ENDED
JUNE 30, 1978

NUMAC OIL & GAS LTD.

CONSOLIDATED STATEMENT OF EARNINGS
Six Months Ended June 30, 1978

	1978	1977
REVENUE		
Operating revenue . . .	\$5,733,765	\$4,788,860
Investment and other income	990,830	575,957
	<u>6,724,595</u>	<u>5,364,817</u>
EXPENSE		
Operating	1,648,571	1,195,577
General and administrative	245,748	237,483
Interest on long-term debt	255,832	527,513
Other interest	398,836	298,385
Depletion and depreciation	919,438	588,142
Minority interest	57,713	25,512
	<u>3,526,138</u>	<u>2,872,612</u>
EARNINGS BEFORE INCOME TAXES	3,198,457	2,492,205
INCOME TAXES		
Current	(366,000)	(307,000)
Deferred	1,458,924	1,056,628
	<u>1,092,924</u>	<u>749,628</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	2,105,533	1,742,577
GAIN ON SALE OF LAND	33,886	30,829
NET EARNINGS	<u>\$2,139,419</u>	<u>\$1,773,406</u>
CASH FLOW	<u>\$4,482,469</u>	<u>\$3,343,690</u>
PER SHARE		
- earnings before extraordinary item . . .	\$ 0.48	\$ 0.39
- net earnings	\$ 0.48	\$ 0.40
- cash flow	\$ 1.01	\$ 0.76
DIVIDENDS	\$ 663,835	\$ -

OPERATIONS

Numac has participated in 26 wells to date in 1978 of which 3 were completed for oil, 1 for heavy oil, 13 for gas, 6 dry and abandoned, and 3 are still drilling. In Alberta, the Company has cased wells for oil at Blackie and Utikuma and for gas at Blackie, Bow Island, Sandy Lake and in the Elmworth area where Numac has interests in over 250,000 acres. Numac participated in drilling several gas wells in British Columbia at Jeans, Goldenrod, Temple, Trutch and Birch. Sun Oil drilled and cased a well for gas on Numac's Mackenzie Delta lands at Garry G-07 which tested 14.2 mmcf/day.

The Company should participate in at least 25 more wells in 1978 and in the winter of 1979. These wells will be both development and exploratory drilling which will include prospective large reserve areas such as Red Cap and Thistle in the foothills, Elmworth, Dawson and YoYo.

New gas production came on stream from the Haig and Silver Fields in 1978. However, due to the current gas oversupply situation facing the producing companies, gas sales for the year will be substantially reduced from earlier estimates. It is not yet possible to measure the full effect of these restrictions. Since the majority of Numac's income is derived from oil, and the selling price of oil increased \$1.00 per barrel July 1, and gas 4.3¢ per mcf August 1, the reduction in anticipated gas sales will be offset to some extent by these price increases. Increased gas exports would be important to Numac since the company has interests in 57 shut-in gas wells in Alberta and B.C.

MIDWEST LAKE URANIUM DISCOVERY

Interest continues at Numac's Midwest Lake Uranium Project where drilling has expanded the known length of the ore body. To date, 75 diamond

CONSOLIDATED STATEMENT OF EARNINGS
Three Months Ended March 31, 1978

	1978	1977
REVENUE		
Operating revenue	\$3,123,728	\$2,571,245
Investment and other income	592,327	377,682
	<u>3,716,055</u>	<u>2,948,927</u>
EXPENSE		
Operating	959,800	653,173
General and administrative	145,259	133,982
Interest on long-term debt	150,989	289,248
Other interest	155,875	162,120
Depletion and depreciation	478,842	271,237
Minority interest	18,366	6,700
	<u>1,909,131</u>	<u>1,516,460</u>
EARNINGS BEFORE INCOME TAXES	<u>1,806,924</u>	<u>1,432,467</u>
INCOME TAXES		
Current	(205,000)	(151,500)
Deferred	825,148	608,974
	<u>620,148</u>	<u>457,474</u>
NET EARNINGS	<u>\$1,186,776</u>	<u>\$ 974,993</u>
CASH FLOW	<u>\$2,509,132</u>	<u>\$1,861,904</u>
PER SHARE		
- net earnings	\$ 0.27	\$ 0.22
- cash flow	\$ 0.57	0.42
DIVIDENDS PAID	\$ 663,835	\$ -

W. S. McGregor

Edmonton, Alberta
May 10, 1978

W. S. McGregor
President

Ynumac

*Report
to
Shareholders*

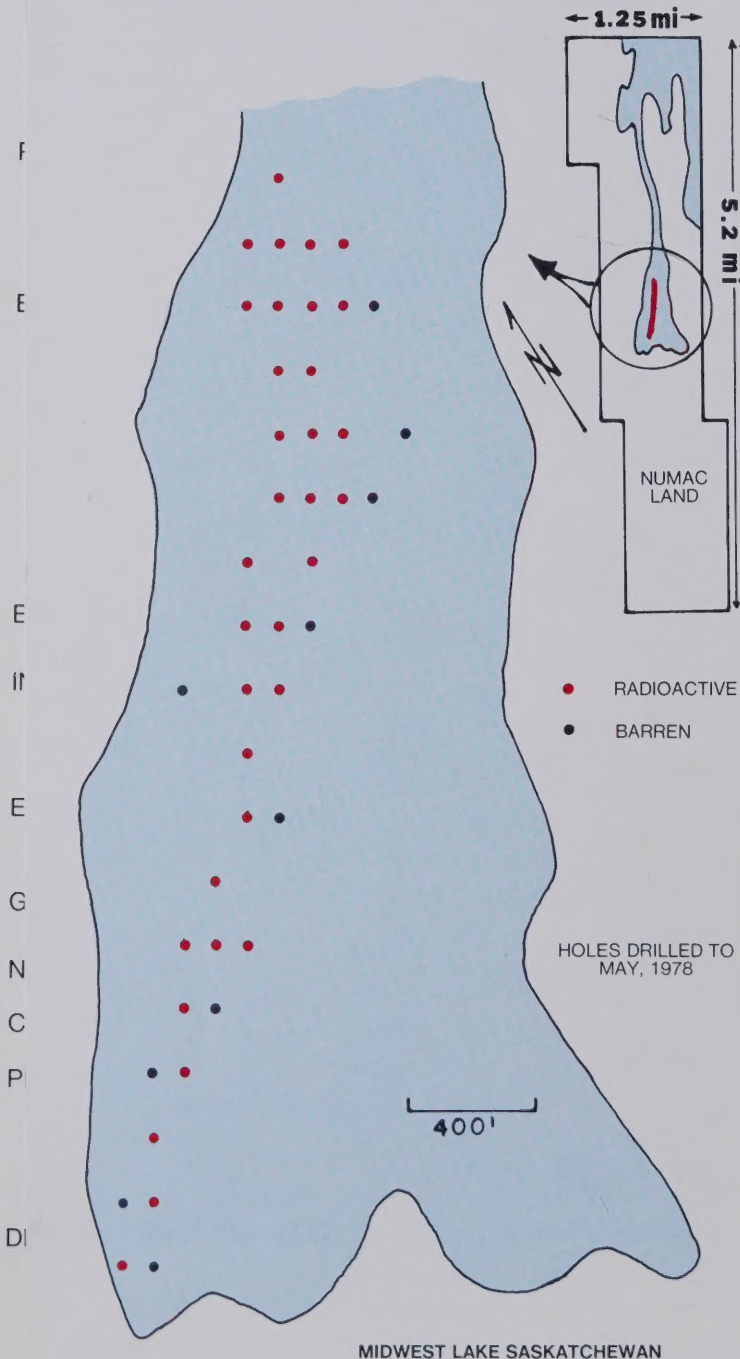
THREE MONTHS ENDED
MARCH 31, 1978

Geo
NUMAC OIL & GAS LTD.

MIDWEST LAKE URANIUM DISCOVERY

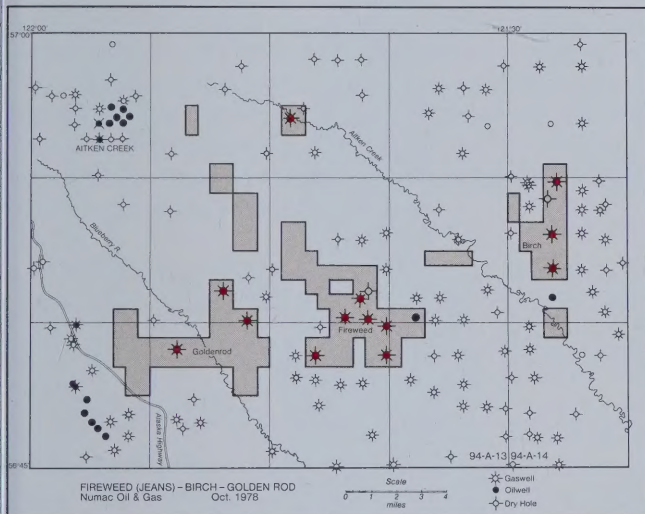
During the past winter's drilling season, Numac's mining endeavors were given a sudden significant boost in importance by the discovery of a large and rich uranium deposit in Northern Saskatchewan. This deposit, the length and width of which are as yet undefined, is located close to and under Midwest Lake, approximately 12 miles west of Gulf Minerals' Rabbit Lake uranium mine. The operator of the project, Esso Minerals Canada, a subsidiary of Imperial Oil Ltd., has a 50% interest and pays 50% of the costs. Bow Valley Industries and an unnamed private company each pay 20% of the costs for their respective 12 1/2% interests. Numac is obligated to assume only 10% of all costs through to production but will have an additional 15% which will be carried without interest charges through to and including the mill, for a total Numac interest of 25%.

Forty-three diamond core holes were drilled this past winter, of which 10 were barren of mineralization, and 33 contained various grades of radioactive material. The zone, to date, has a length of 3,400 feet and widths ranging from less than 100 feet to greater than 300 feet. This 3,400 foot mineralized zone runs lengthwise near the centre of our property which is approximately 5 miles long and 1 mile wide (see map). Grades for the first 13 holes, for which assays are available, average close to 40 pounds per ton. Significant values of nickle are also present. Plans call for another 60 exploratory and development holes to be drilled under and near the lake this summer in order to further evaluate and define the length and width of this deposit. The Company's management feels that this discovery could be one of the most significant factors which will affect the potential growth of Numac for the next several years.



AR18

The Blackie area of southern Alberta and the Red Creek area of B.C. are two examples of other very successful areas of exploration for Numac. In total, Numac has participated in 42 wells to date in 1978 of which 26 have been cased for gas, 7 for oil, 1 for heavy oil and 8 wells were abandoned.



The Jeans-Fireweed area is approximately 50 miles northwest of Ft. St. John, B.C. Numac has working interests varying from 25 to 50% in 13 wells that are cased for gas on these lands. Bluesky, Buick Creek, Baldonnel, and Charlie Lake gas zones are present in these areas. Several locations are planned for this winter's drilling season on Numac's widespread acreage position. These lands are bracketed by gas gathering systems and, as a result, the wells should go on stream as soon as the demand for gas improves.

W. S. McGregor

Edmonton, Alberta
November 8, 1978

W. S. McGregor
President

Financial Report to Shareholders

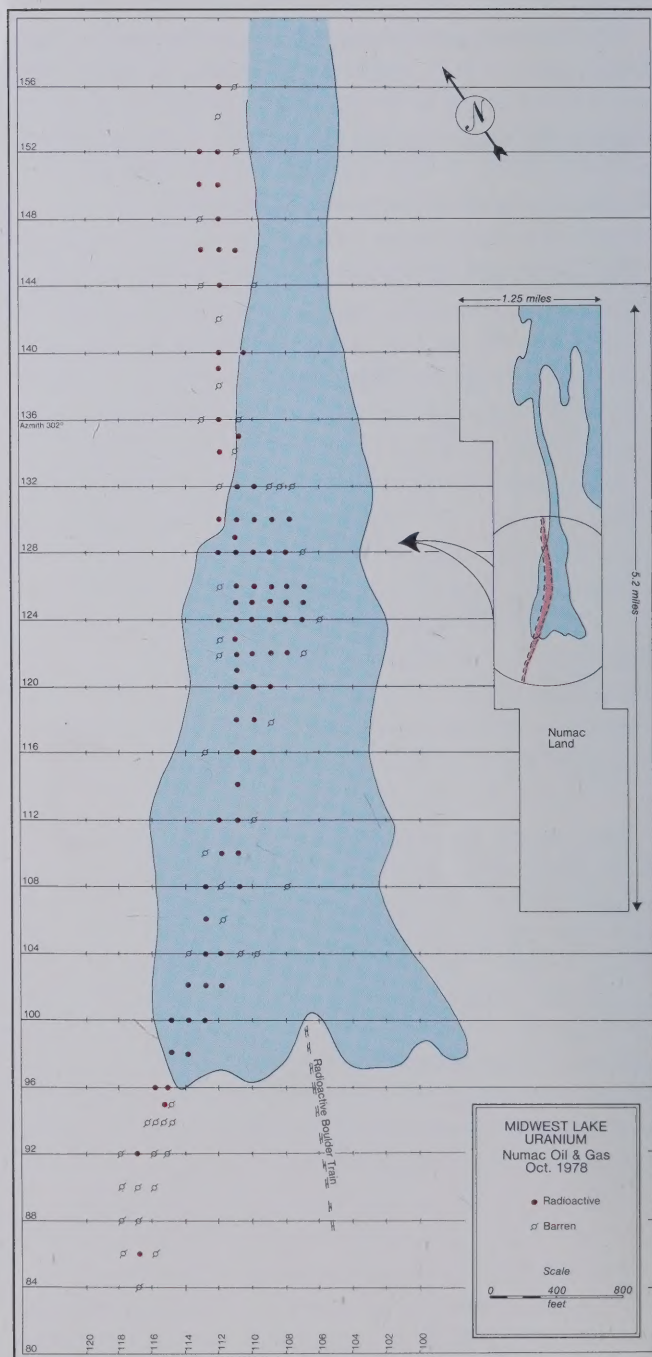
NINE MONTHS ENDED
SEPTEMBER 30, 1978

NUMAC OIL & GAS LTD.

CONSOLIDATED STATEMENT OF EARNINGS **Nine Months Ended September 30, 1978**

	1978	1977
REVENUE		
Operating	\$ 8,694,897	\$ 7,535,398
Investment and other. .	1,663,388	711,709
	<u>10,358,285</u>	<u>8,247,107</u>
EXPENSE		
Operating	2,676,852	1,926,784
General and administrative	391,298	333,898
Interest on long-term debt	435,538	744,084
Other interest	634,438	432,199
Depletion and depreciation	1,351,966	905,737
Minority interest	57,065	38,500
	<u>5,547,157</u>	<u>4,381,202</u>
EARNINGS BEFORE INCOME TAXES	<u>4,811,128</u>	<u>3,865,905</u>
INCOME TAXES		
Current	(565,000)	(477,000)
Deferred	2,205,052	1,633,067
	<u>1,640,052</u>	<u>1,156,067</u>
EARNINGS BEFORE EXTRAORDINARY ITEMS	<u>3,171,076</u>	<u>2,709,838</u>
EXTRAORDINARY ITEMS	<u>33,886</u>	<u>(970,971)</u>
NET EARNINGS	<u>\$ 3,204,962</u>	<u>\$ 1,738,867</u>
CASH FLOW	<u>\$ 6,607,816</u>	<u>\$ 5,218,003</u>
PER SHARE*		
- earnings before extraordinary items .	\$ 0.36	\$ 0.31
- net earnings	\$ 0.36	\$ 0.20
- cash flow	\$ 0.75	\$ 0.59
DIVIDENDS	\$ 663,835	\$ -

*1977 restated to reflect August, 1978 two-for-one stock split.



TO THE SHAREHOLDERS

MIDWEST LAKE URANIUM DISCOVERY

The Midwest Lake uranium project has continued to develop at a most gratifying pace. The 4 rigs which are presently working on the property have drilled a total of 125 holes. Eighty-one of the holes have encountered various grades of radioactive mineralization running along a northeast, southwest trend approximately in the centre of our acreage block. Encouraging shows of both nickle and cobalt have also been intersected.

The total length of radioactive mineralization now extends to over 7,000 feet and is still open at both ends while the width varies with the present maximum being in excess of 600 feet. Drilling will continue throughout the winter in order to try to locate the outer limits of the ore body, and also to better define its overall thickness and grade. Numac pays 10% of the exploration and development costs but will collect an additional 15% of the proceeds after payout for a total of 25% of the income from the mine.

DIVIDEND AND STOCK SPLIT

On August 25, 1978 a two-for-one stock split was effected which increased the Company's issued share capital from 4,425,566 to 8,851,132 shares. On October 17, 1978 the Directors declared the second semi-annual dividend of 7 1/2¢ per share payable November 14, 1978 to shareholders of record at the close of business October 31, 1978. This is equivalent to the first dividend paid in March, 1978 of 15¢ per share prior to the stock split.

CONSOLIDATED STATEMENT OF EARNINGS
Nine Months Ended September 30, 1978

	1978	1977
REVENUE		
Operating	\$ 8,694,897	\$ 7,535,398
Investment and other. .	1,663,388	711,709
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EXTRAORDINARY ITEMS	33,886	(970,971)
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- cash flow	\$ 0.75	\$ 0.59
DIVIDENDS	\$ 663,835	\$ -

*1977 restated to reflect August, 1978 two-for-one stock split.

OPERATIONS

The 17% increase in earnings before extraordinary items and 27% increase in cash flow reflect increased oil and natural gas prices as well as an increase in gas production. The gains in natural gas production were achieved notwithstanding that major purchasers are in an oversupply position and are purchasing minimum contract volumes. Your Company would benefit greatly from increased gas exports as we now have interests in 68 capped wells which are awaiting markets. Numac management is reasonably confident that following the hearings presently being conducted by The National Energy Board in Ottawa they will determine that there is a sizable uncontracted surplus of gas beyond Canadian needs and that the federal government will approve increased exports to the United States.

Gulf Oil Canada has plans to drill a further 30 exploratory wells this winter and next on Numac's 120,000 acre Surmont heavy oil property as per the farmout arrangement.

The Elmworth area has been a very active and successful area for Numac in the first 9 months of 1978. The Company now has 9 wells cased for gas on its acreage that total 250,000 gross acres. The interests in the wells vary from 5.6 to 25% working and 8 and 20% net carried interests. New acreage was purchased in the Pipestone and South Gold Creek areas in 1978. A number of wells will be drilled on Numac's acreage during the winter season with locations ranging from Gold Creek, on the eastern portion of the Elmworth trend, to the Dawson Acreage which lies on the northwest part of the trend in British Columbia. A pipeline has been applied for which will cross through the Wapiti and Gold Creek acreage and tie into the Gold Creek field.

HIGHLIGHTS

	1978	1977
Revenue	\$17,477,777	\$16,603,732
Cash Flow	\$12,846,082	\$12,576,106
Per Share	\$ 1.45	\$ 1.42
Net Earnings	\$ 6,643,955	\$ 5,425,197
Per Share	\$ 0.75	\$ 0.61



Uranium Discovery at Midwest Lake in Saskatchewan



Interests in 269,000 acres in Elmworth area where 11 gas wells and 1 oil well have been completed



9 additional oil and gas wells completed at Fireweed



Increase in light gravity oil reserves for fourth consecutive year



Substantial increase in gas reserves



First dividend paid in 1978 and increased in 1979



Common stock split on a two-for-one basis

PRESIDENT'S REPORT TO SHAREHOLDERS

In many respects 1978 could be considered a turning point in the affairs of your Company. Several gas discoveries and field extensions were drilled in Alberta and British Columbia and final Agreements were signed on the 119,000 acre Surmont farmout to Gulf Canada. Numac participated in a large and rich uranium discovery at Midwest Lake, Saskatchewan, and in March paid its first dividend to shareholders.

Numac's exploration budget which exceeded \$14 million for the year was the largest since incorporation and the budget for 1979 will be approximately \$15 million of internally generated funds.

The cash flow increased moderately to \$12,846,000 as compared with \$12,576,000 in 1977, despite cutbacks in gas sales due to lack of markets. Three of the Company's gas plants were shut down for periods of 60 to 100 days each during the year and somewhat similar cutbacks were experienced by most other gas producers. Net earnings in 1978 were \$6,644,000 as compared with \$5,425,000 in 1977.

For the fourth successive year Numac's proven oil reserves were increased as more light gravity oil was discovered than was produced and sold. Gas reserves were substantially increased to the extent that Numac has interests in more than 90 capped gas wells in Alberta and British Columbia which are awaiting a market. In order to appreciate the potential impact of the Company's interest in these capped gas wells, it is calculated that the cash flow from sales of oil and gas would almost triple with the marketing of this gas.

The present lack of markets for Western Canada's large gas surplus, which is a surplus beyond the 30-year requirement of Canadians, is creating financial problems for many companies in the industry. The orderly marketing of this gas should be resolved in the near term by well planned exports in order to sustain the momentum of the industry which is showing signs of slowing down.

Federal and provincial governments should cooperate to a greater degree in assuring a con-



tinuous and steady exploration program in the provinces. Canada's high cost foreign oil imports of 600,000 barrels, costing approximately \$9 million a day, is an ever increasing burden on our economy. The combination of these oil imports and lack of markets for our gas surplus is a major factor in the continuous weakening of the Canadian dollar. With government and oil industry co-operation in accelerating the development of the tar sands, where we have more than 2,000 billion barrels of oil reserves, Canada could not only become self-sufficient but could again become a major exporter of oil. At least three such plants of over 100,000 barrels of oil each per day should be under development on a continuous basis until our country's shortfall in production is remedied. Supportive government oil and gas policies, in the form of taxes and if necessary the elimination of royalties until costs are recovered, will create jobs, contribute to energy self-reliance and benefit Canada's balance of payments.

One of the important contributors to Numac's successful year was the uranium discovery at Midwest Lake, Saskatchewan. This rich discovery added a new and important dimension to your Company's assets and future profitability. Further details of the present length, width and grade are contained within the body of this report. As drilling continues during the year, the results will be

reported periodically to shareholders. Other uranium properties are being explored with Esso Minerals in the Midwest Lake area.

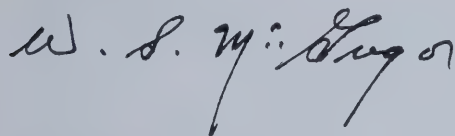
Early in 1978 final documents were signed on Numac's 119,000 acre heavy oil farmout to Gulf Canada. This farmout arrangement is covered in greater detail within this report.

The Elmworth area of Alberta made the headlines in 1978 as several gas successes were announced and large gas reserves were discovered. Numac has interests in 269,000 acres, had 10 gas and one oil success from 12 wells drilled and management plans to drill several other exploratory wells during 1979 in this area.

In 1978 Numac paid its first dividend to shareholders and split the common stock on a two-for-one basis by mailing an additional share to each shareholder for each one held.

We wish to express our thanks to the Company's employees for their dedication and efforts during the year and our grateful appreciation to our shareholders for their support.

On behalf of the Board of Directors



W. S. McGregor

President and Managing Director

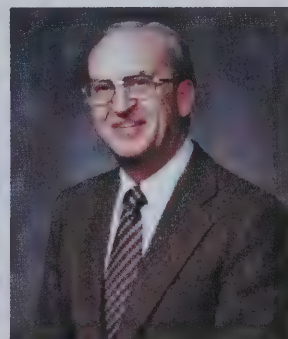
March 12, 1979



DONALD F. BAKER
Vice-President, Engineering



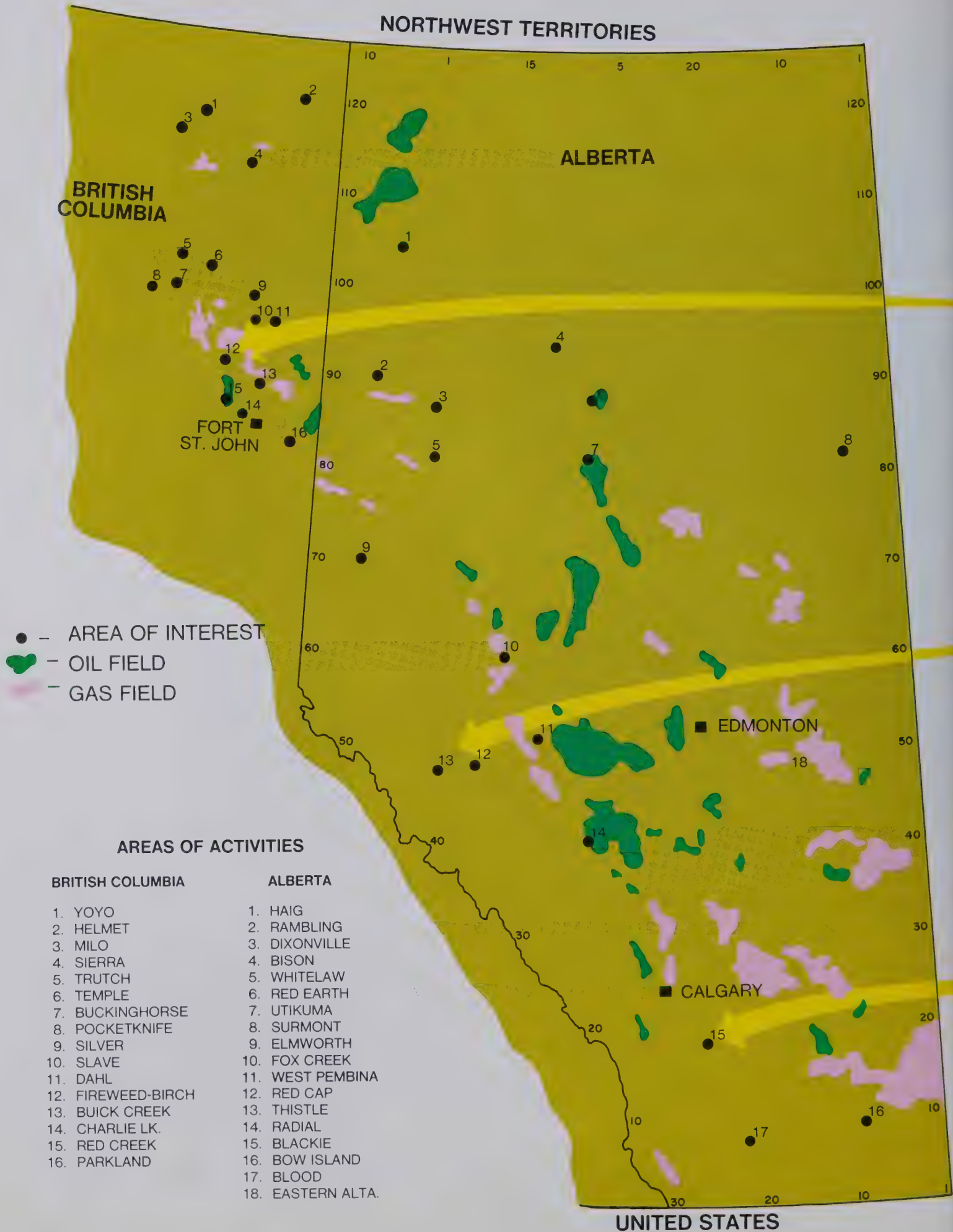
RONALD D. LARMOUR
Vice-President & Treasurer



C. R. S. MONTGOMERY
Vice-President & Secretary



WILFRED J. WILSON
Vice-President, Exploration



- - AREA OF INTEREST
- - OIL FIELD
- - GAS FIELD

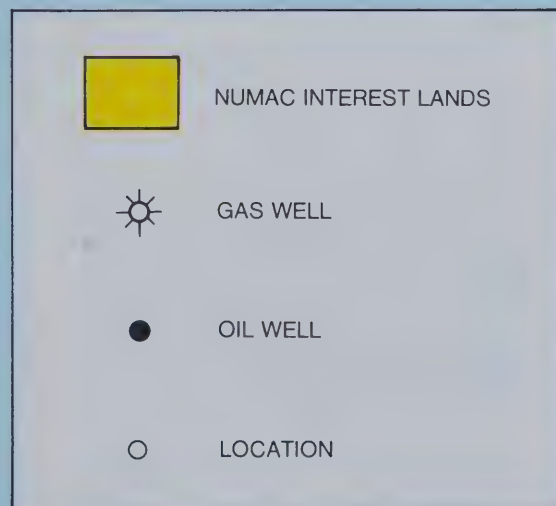
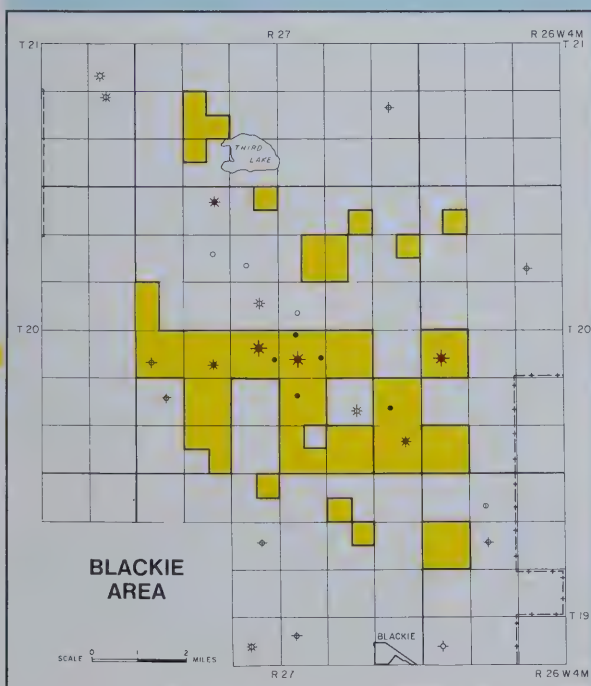
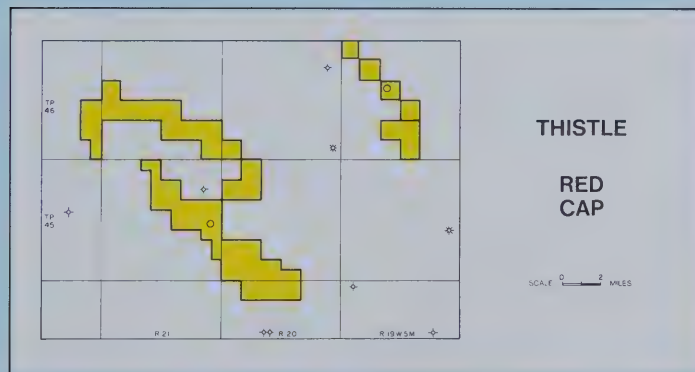
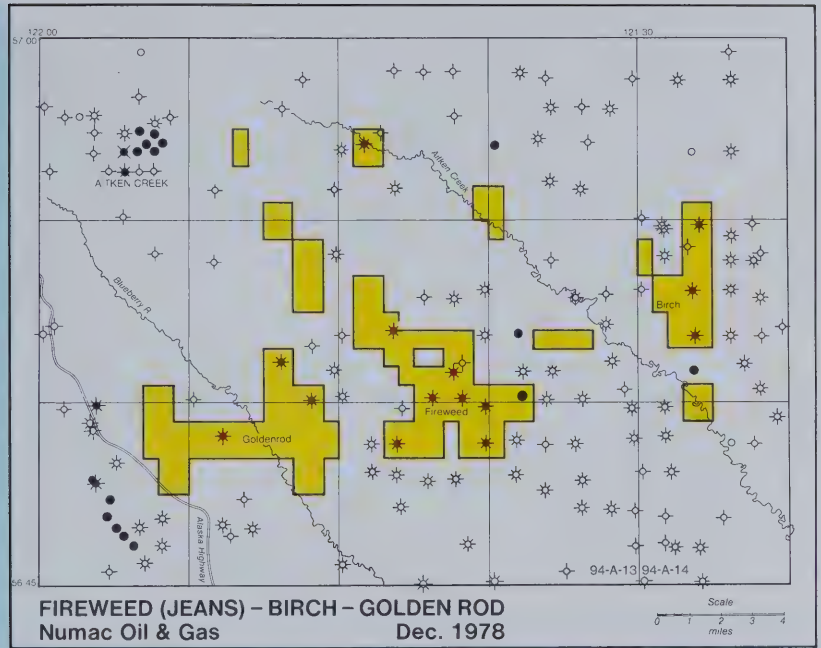
AREAS OF ACTIVITIES

BRITISH COLUMBIA

- 1. YOYO
- 2. HELMET
- 3. MILO
- 4. SIERRA
- 5. TRUTCH
- 6. TEMPLE
- 7. BUCKINGHORSE
- 8. POCKETKNIFE
- 9. SILVER
- 10. SLAVE
- 11. DAHL
- 12. FIREWEED-BIRCH
- 13. BUICK CREEK
- 14. CHARLIE LK.
- 15. RED CREEK
- 16. PARKLAND

ALBERTA

- 1. HAIG
- 2. RAMBLING
- 3. DIXONVILLE
- 4. BISON
- 5. WHITELAW
- 6. RED EARTH
- 7. UTIKUMA
- 8. SURMONT
- 9. ELMWORTH
- 10. FOX CREEK
- 11. WEST PEMBINA
- 12. RED CAP
- 13. THISTLE
- 14. RADIAL
- 15. BLACKIE
- 16. BOW ISLAND
- 17. BLOOD
- 18. EASTERN ALTA.



OIL AND GAS EXPLORATION

ALBERTA

Drilling in Alberta will be extensive and widespread. The Company's gas production from this province was from HAIG, DIXONVILLE, FOX CREEK and other areas, and oil production from RED EARTH, UTIKUMA, SNIPE LAKE and BLACKIE.

NORTHWEST ALBERTA

HAIG RIVER, an area south of Rainbow, is producing just under 1 million cubic feet per day for Numac's account. Two wells are on stream while 4 other wells are shut-in. Numac has a 30% interest in 23,000 acres at Haig.

Further drilling will be carried out at RAMBLING where the Company has 4 gas wells and interests in 53,000 acres. This area lies 10 miles north of the Worsley gas field and pipeline facilities. Forty miles southeast of Rambling at DIXONVILLE is Numac's main gas producing area with 6 wells on stream producing an average of 3.5 million cubic feet per day net to Numac. The Company has one recently drilled gas well to tie into their Dixonville gas plant. A well will be drilled at WHITELOW where considerable seismic has been carried out on Numac's 50% interest block of 15,680 acres.

BISON

Numac has a 100% interest in a reservation of 25,600 acres in northern Alberta that will be drilled in the winter of 1979. This acreage is prospective for Cretaceous gas.

RED EARTH - UTIKUMA

Numac will participate in a number of wells developing and exploring for oil in the RED EARTH and UTIKUMA areas from where the Company derives its main oil production. Exploration for oil will be carried out in areas which are in the general vicinity of the Red Earth field.

FOX CREEK

Numac operates a gas plant at FOX CREEK where the Company has a 50% interest in 3 gas wells which produce over 4 million cubic feet per day. The Company has 3 other wells that are standing cased in the Fox Creek area which will be put on stream when markets develop. Numac has interests in over 14,000 acres in this area where further drilling will be carried out.

WEST PEMBINA

Numac has a one-third interest in one and one-half sections of land in the WEST PEMBINA play in Town-

ship 50, Range 12, W5M which is just over 2 miles east of a Chevron Nisku oil well. Canadian Superior and Gulf hold the other interests in this acreage. This acreage was purchased over an interpreted seismic feature which should be drilled in the near future.

ALBERTA FOOTHILLS

The Company will be participating in the drilling of 2 deep foothill wells on their RED CAP and THISTLE acreage. These plays are very important to Numac as they are the Company's first entry into the foothills where the possibility of large reserves exist.

RED CAP

The Company holds 10% to 25% interest with Gulf Oil and other companies in 4,480 acres at RED CAP. A well on this structure will be approximately 14,000 feet deep with the primary prospect being large reserves in the Mississippian.

THISTLE

The THISTLE play consists of 20,000 acres, 8 miles to the west of Red Cap, in which Numac holds a 25% interest with Gulf Oil, Cities Service and Dome, and was purchased for just over \$6 million. This area is prospective for large gas reserves in reefs of Devonian age. A well on this prospect will be approximately 16,000 feet deep. Both of the above plays are large structural overthrusts that have been mapped with seismic.

BLACKIE

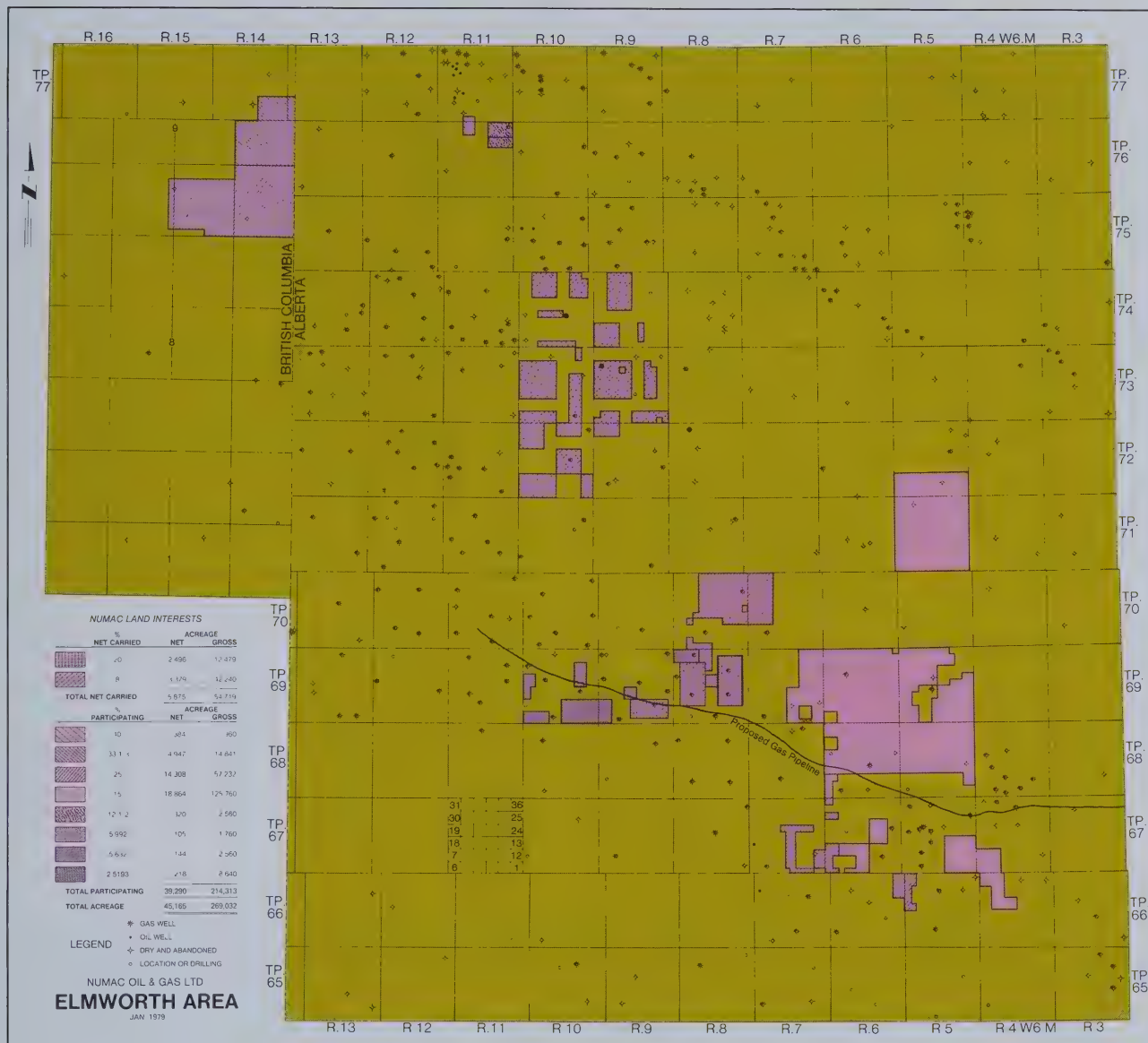
The Company now has interests in 9 wells that are cased for oil production in the BLACKIE area. Two of these wells are cased for oil from the Basal Cretaceous while the others are Mississippian producers. The Company's interest ranges from 6.25% to 25%. Four of the wells drilled at Blackie have been taken down to the Devonian Wabamun and are capable of gas production from the Wabamun and Basal Belly River.

EASTERN ALBERTA

The Company was involved in 9 wells in an area east of Edmonton in the shallow gas area and 6 of these wells have been cased for gas. It is possible that Numac will participate in over 30 wells, with the same varying interests, in this area in 1979.

OTHER AREAS

The Company has a 25% interest in 3 Cardium gas wells at RADIAL, 35 miles south of Pembina in the Ferrier area, and 4 gas wells at BOW ISLAND in the southeast corner of Alberta.



ELMWORTH

The ELMWORTH area has been the most significant gas play to develop in Alberta in a number of years. Numac has varying interests in 269,032 acres and a net of 45,165 acres in this play.

Amoco Petroleum has cased 4 wells for gas on acreage where Numac has a 20% net carried interest in the WAPITI area. Numac participated at 5.69% in a well immediately north of these wells that was cased for gas.

The Company has participated in two gas wells on its 15% interest GOLD CREEK acreage and one gas well on its 25% interest acreage at PIPESTONE. Numac also has an 8% net carried interest in acreage where Total has cased one well for gas and another well for Triassic oil. This oil play is very significant as Total has completed 3 oil wells over a northwest/

southeast trend that extends over 13 miles and could involve over 13,000 acres of land where Numac has the 8% net carried interest. Numac purchased interests in 23,640 acres to the south of the Company's large Gold Creek Reservations in 1978. Several wells will be drilled in this Gold Creek area in the winter of 1978-79. At least one well will be drilled on Numac's DAWSON acreage which is located on the B.C. side of the Elmworth trend and to the northwest of the Knopcik-Hythe area where impressive gas reserves have also been discovered. This well will be approximately 12,000 feet deep. Numac has a 25% interest in 2 large permits of 32,000 acres and has a 33.3% interest in another permit of 14,800 acres. Gulf is the operator of these lands. Several miles of seismic has been purchased in this area and the coverage indicates the acreage to be very prospective.

BRITISH COLUMBIA

The Province of B.C. has great exploratory potential and Numac has an extensive drilling program planned for that province in 1979. Considerable seismic has been run over several interesting plays that will be drilled in the winter of 1978-1979. Several interesting discoveries were made in 1978.

FORT NELSON

The HELMET area gave Numac its first gas production from B.C. The Company has one gas well in this area that produces 4.3 million cubic feet per day in which Numac has a one-third interest.

Devonian tests will be drilled at YOYO where the Company has a 20,000 acre Permit and at MILO on Numac's 30,000 acre Permit. Numac has a 50% interest in both areas. Two wells will be drilled in the SIERRA area in 1979.

TRUTCH-TEMPLE-BUCKINGHORSE

In this general area, the Company has interests in 151,500 acres. A new gas discovery was made on the Company's 37,000 acre one-third interest lands at TRUTCH. Further drilling is anticipated on this block.

Numac participated in a new discovery in the TEMPLE area where the Company has varying interests in 75,000 acres of land. The Company will have 5 wells drilled on their acreage while it is expected that industry will drill several others on adjoining land holdings.

A well will also be drilled on Numac's BUCKINGHORSE block where the Company has a 40% interest in 36,000 acres.

SILVER

The most significant producing gas area the Company has at the present time in B.C. is at SILVER where the Company has a 50% interest in 5 gas wells that are now on stream and producing 6 million cubic feet per day. Another well will be drilled at Silver in the winter of 1979. Drilling will also be carried out on Numac lands in DAHL, PICKELL, SLAVE and ANTELOPE prospects that lie in the general Silver area.

FIREWEED

This is probably the area in B.C. with the most potential since Numac has varying interests in 13 wells cased for gas and includes FIREWEED, JEANS, BIRCH and GOLDENROD wells. Several producing zones have proven rewarding in this area and a number of wells will be drilled in 1979 to follow up these successes. The Company has over 27,000 acres in the area. (See map page 5).

BUICK CREEK

Further drilling will be carried out in the BUICK CREEK area where Numac participated in a new oil discovery in 1978. This area is very prospective for a Triassic Sand play that has become very prominent in the B.C. exploration picture. Several other zones are also prospective in this area.

RED CREEK

Numac participated in 3 gas wells in the RED CREEK area and foresees several other locations on these lands. Further drilling is also anticipated in the CHARLIE LAKE (TEA) area where the Company participated in a new gas discovery. Drilling will also be carried out on Numac's large PARKLAND Permit of 31,381 acres.

Management expects Numac to increase its gas sales in British Columbia considerably when the market improves.

To conclude this discussion, it would be fair to say that with the new gas coming on stream, the successful exploration program in 1978, and with the aggressive exploratory program planned for 1979, NUMAC OIL & GAS LTD. will again surpass all previous years in cash flow and will add substantial oil and gas reserves, and consequent value to the Company.



MACKENZIE DELTA, NORTHWEST TERRITORIES

Numac's Delta property consists of 270,242 acres that were acquired in 1964. The property was farmed out to Sun Oil Company Limited. This left Numac with a net preferred carried interest (a share of income from first sales of oil and/or gas) of 7.15% which will increase to 20% after recovery of drilling and development costs. In addition, Numac presently receives \$200,000 per year during exploration stage.

In 1975 Sun whipstocked the Garry P-04 well, in which Numac has a gross override, from Numac's acreage into adjoining Chevron acreage to the east and completed it as a gas and oil well. A zone below 9,600 feet tested 14 million cubic feet of gas per day with condensate while a test of an upper zone below 5,100 feet tested at the rate of 7,200 barrels of oil per day. Another gas zone above the oil zone tested gas at the rate of 17 million cubic feet per day. There is a gas pay zone of 265 feet and 65 feet of oil pay, for a total pay section of 330 feet. Gas reserves attributed to the section on which the well is located by DeGolyer and MacNaughton were 283.607 billion cubic feet.

A significant stepout well, Garry G-07, was drilled and completed three miles north on the structure in the first quarter of 1978. This well also flowed gas at the rate of 21.4 MMcf per day from two horizons.

There is presently renewed speculation that a gas line will be proposed from the Beaufort Sea gas discovery area which would pick up gas from the Delta.

ATHABASCA BITUMINOUS OIL SANDS (SURMONT), ALBERTA

On December 19, 1977, Numac announced the signing of a farmout arrangement with Gulf Oil Canada Limited on Numac's wholly-owned 119,000 acre oil sands property. Outside consultants report the property has reserves in place in excess of 20 billion barrels.

In consideration of the farmout, Numac has received in excess of \$11 million in cash and will receive an additional \$13.5 million, plus interest, over the next three years. In addition, Numac will retain a 5% net carried interest, or free ride, in each plant. Furthermore, Numac will have the right to examine feasibility studies for sixty (60) days on each proposed plant, with the privilege of converting the carried interest to 12 1/2% participating interest. The cash payments, plus the flexibility of the options, is an extremely favourable arrangement for an independent company such as Numac.

Each extraction and upgrading plant is tentatively planned to deliver 140,000 barrels of high grade oil per day and there are enough oil reserves to support four such plants if approved and developed. A decision to participate 12 1/2% in just one of these plants would entitle Numac to 17,500 gross barrels of oil per day. To put it in another way, Numac's decision to participate in the plants entitles our Company to 2.5 billion barrels of reserves in place.

Oil Sands Experimental Project.



URANIUM EXPLORATION

MIDWEST LAKE, SASKATCHEWAN

Early in 1978, Numac, Bow Valley and Esso Minerals Canada as operator, made a significant uranium discovery at MIDWEST LAKE. At year-end, 172 vertical holes were drilled and mineralization extended for a length of 8,200 feet while drilling to date indicates the width to be at least 650 feet at the widest part.

In January, 1979 Esso Minerals reported the ore body has become the largest and richest in the province. Based on the first 90 drill holes, the reported drill-indicated uranium reserves are 1,424,000 tons assaying an average of 3.4% uranium oxide for an estimated 97 million pounds - equivalent to 68 pounds per ton of ore. Additional reserves will be reported as the outside consulting geological engineers evaluate the assays from infill and extension drill holes when they become available.

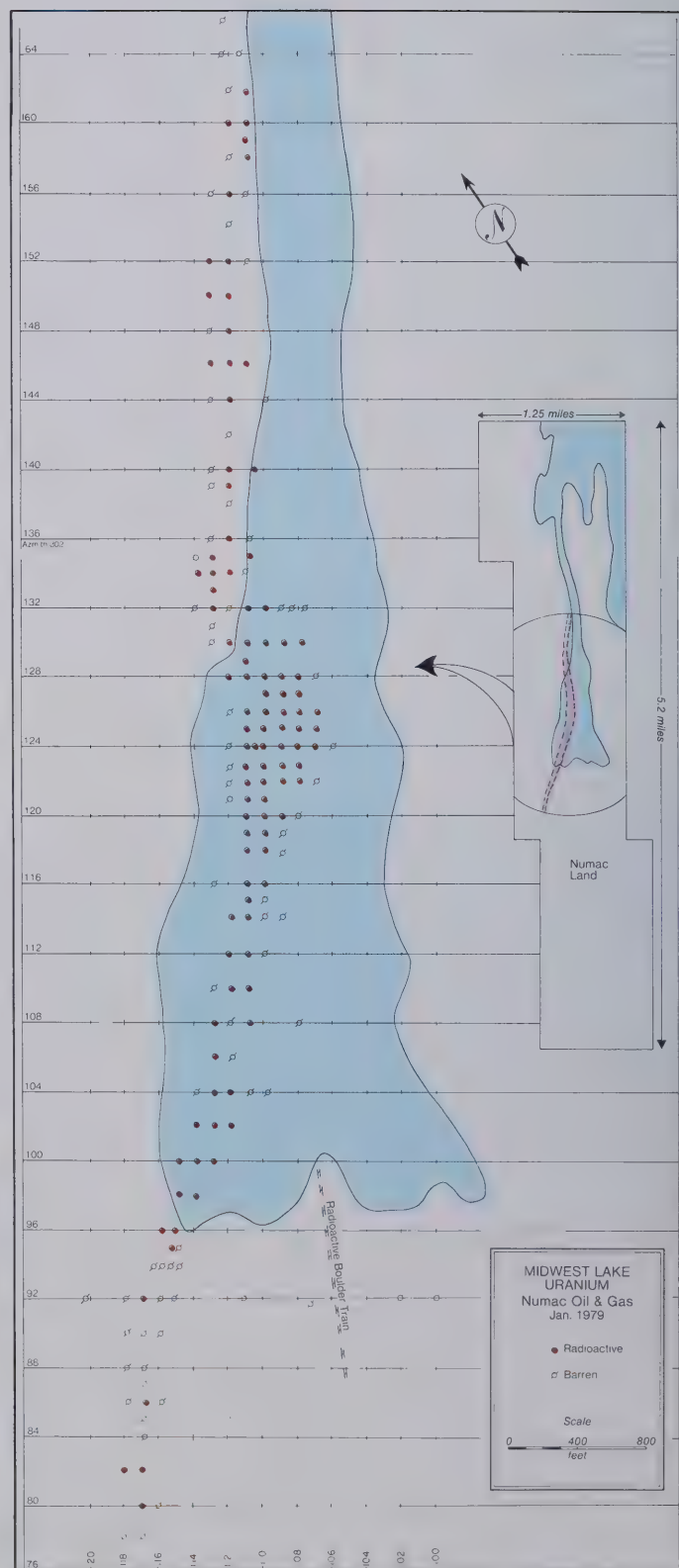
In addition to the uranium, Esso Minerals reported significant nickel and cobalt has also been encountered in the ore bodies but assays are presently limited and their average content will be released when more analyses are completed.

Four drilling rigs will continue carrying out the exploration and development of the ore body to determine ultimate length and width. Ninety holes are planned before spring breakup.

If further drilling proved up in excess of 150 million pounds, which now seems to be a good probability, it is reasonable to expect to market 10 million pounds per year.

Numac was the original owner of the property and has a preferred position in that the Company has to supply only 10% of all exploration and development costs, including the mill. Numac is also carried free of costs, including interest charges, for an additional 15% - for a total final participation of 25%.

Examining core - Midwest Lake



OTHER URANIUM EXPLORATION

At CARSWELL in Northern Saskatchewan, Numac, with Amok as operator, has interests in approximately 10,000 acres near Amok's Cluff Lake uranium ore body. A \$500,000 budget has been approved for drilling on the property in 1979. Trenching and drilling to date has been encouraging. Partners in the lands are Amok, Numac, Esso and Bow Valley.

Numac also has a 25% interest in the CREE property which consists of several hundred thousand acres of prospective uranium land in Saskatchewan on which preliminary work is now under way.

In the YUKON, Numac, Precambrian Shield Resources and Bethlehem Copper have a 20,000 acre prospective uranium property on which work will commence this year.



Midwest Lake



LAND HOLDINGS

As of December 31, 1978, the Company held varied interests in petroleum, natural gas and other mineral holdings as follows (petroleum and natural gas are broken down as to main areas of activity):

	Gross	Net
Alberta	1,099,006	260,741
British Columbia	579,034	203,679
Other Areas	321,725	54,048
	<u>1,999,765</u>	<u>518,468</u>
Minerals	448,916	108,682
	<u>2,448,681</u>	<u>627,150</u>

Following the purchase, early in the year, of parcels in such areas as Thistle and Blood in Alberta and Dawson in British Columbia, Numac confined its petroleum and natural gas acquisitions mainly to expansion of holdings in areas in which it is actively involved in exploration and drilling activities. Outstanding examples of this approach are reflected by increased acreage positions in the Elmworth-Gold Creek area of Alberta and Fireweed (Jeans) and Red Creek areas of British Columbia. Similarly, mineral holdings were expanded in uranium prone areas such as the Athabasca basin of Northern Saskatchewan where the geological setting is comparable to the Midwest Lake discovery area.

It is anticipated the Company will follow the same acquisition policy during 1979.

PROVEN & PROBABLE RESERVES

	Crude Oil (Barrels)	Natural Gas (MCF)
Reserves at December 31, 1977	11,759,000	87,283,000
1978 Additions	804,000	61,177,000
1978 Production and Sales	<u>562,000</u>	<u>2,694,000</u>
Reserves at December 31, 1978	<u>12,001,000</u>	<u>145,766,000</u>

Proven reserves are those quantities of crude oil and natural gas, which upon analysis of all geological and engineering data appear, within reasonable certainty, to be recoverable from known reservoirs under economic and operating conditions then existing. These reserves are limited to those expected to be recovered at commercial rates, under current operat-

ing conditions and under existing regulatory practices. Probable reserves, in the case of oil, are considered to be those reserves commercially recoverable as the result of the beneficial effects which may be derived from enhanced recovery systems or more favorable performance of the primary recovery mechanism, whereas, in the case of gas, probable reserves are based on potentially productive areas where the reservoir is under-developed but the area has been delineated by successful drilling.

OTHER COMPANY ACTIVITIES

OILFIELD CONSTRUCTION

The oilfield construction division of the Company is primarily engaged in road building in the foothills area of Alberta and other oilfield-related activities, including lease preparation, restoration of drillsites and island building in the Mackenzie Delta. This company has had an enviable history of success in this type of work and has consistently contributed to profits.

REAL ESTATE

Numac is both directly and indirectly participating in real estate activities in the Edmonton area of Alberta. It owns 60% of the outstanding shares of Nu-Alta Developments Ltd. which in 1974 completed the 14-storied twin towered, interconnected office building named "Petroleum Plaza" in Edmonton. The complex is fully leased. Numac has acquired directly certain other real estate lands in the Edmonton area which management believes are strategically located in relation to the future development of the North Country and the Athabasca Bituminous Oil Sands area.

Petroleum Plaza



Numac Oil & Gas Ltd.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year Ended December 31

	1978	1977
REVENUE		
Operating revenue	\$11,192,708	\$10,320,802
Investment income	1,151,236	373,976
Gain on sale of securities	528,605	15,208
Supervision and sundry	145,015	177,808
Mackenzie Delta (Note 1)	200,000	200,000
Athabasca Oil Sands (Note 3)	4,081,000	5,441,431
Gain on sale of fixed assets	179,213	74,507
	<u>17,477,777</u>	<u>16,603,732</u>
EXPENSE		
Operating	3,324,157	2,677,864
General and administrative	597,153	482,019
Interest on long-term debt	336,848	872,249
Other interest	1,010,776	593,334
Depletion and depreciation	1,835,294	1,470,146
Minority interest	-	48,830
	<u>7,104,228</u>	<u>6,144,442</u>
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	<u>10,373,549</u>	<u>10,459,290</u>
INCOME TAXES (Note 1)		
Current (Provincial royalty tax credit)	(816,452)	(672,347)
Deferred	4,579,932	4,735,469
	<u>3,763,480</u>	<u>4,063,122</u>
EARNINGS BEFORE EXTRAORDINARY ITEMS	6,610,069	6,396,168
GAIN ON SALE OF LAND (Net of Tax \$9,766; 1977 \$8,885)	33,886	30,829
WRITE-OFF OF INVESTMENT IN CANADIAN ARCTIC GAS STUDY LTD. (Net of Tax \$888,450)	-	(1,001,800)
NET EARNINGS	6,643,955	5,425,197
RETAINED EARNINGS , beginning of year	18,558,647	13,133,450
	<u>25,202,602</u>	<u>18,558,647</u>
DIVIDENDS (Note 8)	<u>1,327,670</u>	-
RETAINED EARNINGS , end of year	<u>\$23,874,932</u>	<u>\$18,558,647</u>
PER SHARE*		
Earnings before extraordinary items	\$0.75	\$0.72
Net earnings	\$0.75	\$0.61
Cash flow	\$1.45	\$1.42

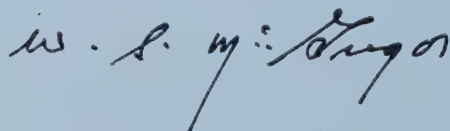
* Based on weighted average of shares outstanding
adjusted for August, 1978 two-for-one stock split (Note 6).

CONSOLIDATED BALANCE SHEET**ASSETS**

DECEMBER 31

	1978	1977
CURRENT ASSETS		
Cash	\$ -	\$ 266,967
Marketable securities, at cost		
(Market value \$5,118,778; 1977 \$6,152,883)	3,099,026	3,676,181
Accounts receivable	2,820,893	2,532,642
Long-term receivables due within one year (Note 3)	4,572,600	4,566,000
Provincial royalty tax credit	816,452	672,347
Inventories, at lower of cost and net realizable value	101,856	271,396
Prepaid expenses and deposits	177,441	22,135
Total current assets	<u>11,588,268</u>	<u>12,007,668</u>
 LONG-TERM RECEIVABLES (Note 3)	 <u>12,499,040</u>	 <u>17,092,121</u>
 FIXED ASSETS, at cost (Note 1)		
Buildings and land	6,464,625	10,729,147
Oil and gas properties – Canadian	50,148,310	36,036,890
– Other	244,294	228,465
Mining properties	1,141,028	837,223
Production and other equipment	8,275,724	6,714,826
	<u>66,273,981</u>	<u>54,546,551</u>
 Less: Accumulated depletion and depreciation	 8,814,744	 7,774,758
	<u>57,459,237</u>	<u>46,771,793</u>
	<u><u>\$81,546,545</u></u>	<u><u>\$75,871,582</u></u>

ON BEHALF OF THE BOARD



Director



Director

LIABILITIES

DECEMBER 31

	1978	1977
CURRENT LIABILITIES		
Bank indebtedness	\$ 8,525,712	\$ 3,600,000
Notes payable	—	300,000
Accounts payable and accrued	2,820,532	2,081,764
Long-term debt due within one year (Note 5)	75,000	104,120
Deferred income (Note 4)	4,121,642	4,232,786
Total current liabilities	15,542,886	10,318,670
DEFERRED INCOME (Note 4)	8,837,760	12,897,492
LONG-TERM DEBT (Note 5)	4,793,040	9,498,840
DEFERRED INCOME TAXES	16,597,377	12,191,034
MINORITY INTEREST	—	506,349

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 6)		
Authorized		
10,000,000 shares without par value		
Issued		
8,851,132 shares	11,900,550	11,900,550
RETAINED EARNINGS		
	23,874,932	18, 58,647
	35,775,482	30,459,197
	<u>\$81,546,545</u>	<u>\$75,871,582</u>

Numac Oil & Gas Ltd.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31

FINANCIAL RESOURCES PROVIDED BY	1978	1977
Operations		
Earnings before extraordinary items	\$ 6,610,069	\$ 6,396,168
Items not requiring financial resources		
Depletion and depreciation	1,835,294	1,470,146
Deferred income taxes	4,579,932	4,735,469
Other	(179,213)	(25,677)
Funds from operations (cash flow)	12,846,082	12,576,106
Proceeds from disposal of equipment	354,294	284,539
Reduction of long-term receivable	72,600	66,000
Athabasca Oil Sands Agreement (Note 3)	-	18,000,000
Athabasca Oil Sands proceeds in excess of amount in earnings	419,000	558,569
Long-term debt	-	9,423,840
Key Employee Stock Purchase Plan	63,594	10,250
Advance gas payments	58,561	-
	<u>13,814,131</u>	<u>40,919,304</u>
FINANCIAL RESOURCES USED FOR		
Resource properties	14,431,056	10,048,322
Plant and equipment	2,411,224	1,348,987
Dividends (Note 8)	1,327,670	-
Reduction of long-term debt	936,264	8,807,376
Increase in long-term receivables	-	13,500,000
Nu-Alta Developments Ltd. (Note 2)	305,015	-
Reclassification of deferred income (Note 4)	-	4,114,886
Other	46,518	(1,162)
	<u>19,457,747</u>	<u>37,818,409</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(5,643,616)	3,100,895
WORKING CAPITAL (DEFICIENCY), beginning of year	1,688,998	(1,411,897)
WORKING CAPITAL (DEFICIENCY), end of year	<u>\$ (3,954,618)</u>	<u>\$ 1,688,998</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1978

NOTE 1 – ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting share capital with the exception of 60%-owned Nu-Alta Developments Ltd. which is accounted for as described in Note 2 to the financial statements.

(b) Oil and Gas Properties

The Company follows the full cost method of accounting whereby all costs related to exploration and development of oil and gas reserves are capitalized and accumulated in cost centres as follows:

- (1) Canadian (excluding Mackenzie Delta and Athabasca Oil Sands)
- (2) Mackenzie Delta
- (3) Athabasca Oil Sands
- (4) Outside Canada

Costs accumulated in the Canadian cost centre are depleted using the unit-of-production method based upon estimated recoverable reserves.

Costs in the Mackenzie Delta cost centre consist solely of the Company's net carried interest in the Delta which is recorded in the accounts at a nominal amount of \$1.00. All revenue received from these properties is recorded as income.

Costs in the Athabasca Oil Sands cost centre are recorded in the accounts at a nominal value of \$1.00. An agreement was entered into respecting these properties during 1977 as explained in Note 3.

Outside Canada costs have been capitalized pending the outcome of exploration and related activities in each area of interest. If exploration efforts are successful, these costs will be depleted on the unit-of-production method. Until sufficient reserves are developed, these costs are amortized at an annual rate of 10%.

(c) Mining

Acquisition and exploration costs of mining properties are treated on a project basis wherein costs are not charged to expense unless a project is abandoned. Revenue from mining properties is not taken into income unless the proceeds exceed the total project cost.

(d) Depreciation

Depreciation is provided on the straight-line method based on the estimated useful life of the following assets:

Production equipment at 7%

Construction and other equipment at 10% to 20%

Real estate buildings are depreciated on the sinking fund method at 5% over a term of 40 years.

(e) Income Taxes

The Company follows the tax allocation method of accounting for income taxes. Under this method, deferred income taxes are recorded to the extent that income taxes, otherwise payable, are deferred by claiming capital cost allowances and exploration and development costs in excess of the depletion and depreciation provisions.

NOTE 2 – INVESTMENT IN NU-ALTA DEVELOPMENTS LTD.

During 1978 the Company entered into an agreement with the minority shareholder of Nu-Alta Developments Ltd. whereby both parties agreed to certain reciprocal restrictions on the sale or disposal of their respective ownership interests in and the assets of Nu-Alta Developments Ltd. This agreement establishes joint control over the operations of Nu-Alta Developments Ltd. and prevents the unilateral control of its resources by any one of them. The Company has therefore adopted the proportionate consolidation basis to account for its 60% interest in the assets, liabilities, revenue and expenses of Nu-Alta Developments Ltd.

Summary of the Company's Share of Operations of Nu-Alta Developments Ltd. for the year ended December 31, 1978:

Revenue from rental operations	<u>\$1,531,908</u>
Expenses	<u>\$1,011,073</u>
Net earnings	<u>\$ 135,997</u>
Retained earnings, end of year	<u>\$ 321,920</u>
Total assets	<u>\$6,722,704</u>
Total liabilities	<u>\$6,400,184</u>

NOTE 3 - LONG-TERM RECEIVABLES

	1978	1977
Receivable on Athabasca Oil Sands Agreement	\$13,500,000	\$18,000,000
Receivable from sale of land	1,274,000	1,340,000
Receivable under the Key Employee Stock Purchase Plan (Note 6)	2,186,903	2,250,497
Other	110,737	67,624
	<u>17,071,640</u>	<u>21,658,121</u>
Less: Due within one year	<u>4,572,600</u>	<u>4,566,000</u>
	<u>\$12,499,040</u>	<u>\$17,092,121</u>

In 1977 an agreement was reached with Gulf Oil Canada Limited with respect to the Company's Athabasca Oil Sands property whereby Gulf paid an initial consideration of \$6,000,000 and agreed to pay an additional \$18,000,000 in four equal annual instalments which commenced in 1978 with interest at 4.67%. Numac retains a net carried interest in the property as well as the right to convert to a 12 1/2% participating interest on any proposed oil sands plants.

In 1976 commercial land holdings were sold and the proceeds are receivable in annual instalments in varying amounts until 1981 with interest at 10%.

The gains derived from the above agreements are being taken into earnings on the instalment basis as follows:

	Oil Sands Property	Land sale (net of income taxes)
1976	\$ -	\$ 154,147
1977	5,441,431	30,829
1978	4,081,000	33,886
1979	4,081,000	37,293
1980	4,081,000	143,754
1981	4,081,000	473,445
	<u>\$21,765,431</u>	<u>\$ 873,354</u>

NOTE 4 - DEFERRED INCOME

	1978	1977
Athabasca Oil Sands Agreement	\$12,243,000	\$16,324,000
Land sale	654,492	688,378
Rent received in advance	3,349	117,900
Advance gas payments	58,561	-
	<u>12,959,402</u>	<u>17,130,278</u>
Less: Current portion	<u>4,121,642</u>	<u>4,232,786</u>
	<u>\$ 8,837,760</u>	<u>\$12,897,492</u>

A portion of the 1977 reported deferred income on the Athabasca Oil Sands Agreement has been reclassified as current to conform to the 1978 classification. The reclassification of the 1977 accounts had no effect on the net income or the funds from operations as reported in that year but did reduce the previously reported working capital by \$4,114,886.

NOTE 5 - LONG-TERM DEBT

The long-term debt relates to and is secured by specific real estate properties and consists of the following in Canadian funds:

	1978	1977
60% of fully-hedged \$7,000,000 U.S. income debenture with interest aggregating 6.26% at December 31, 1978 (Note 2)	\$ 4,793,040	\$ -
100% of fully-hedged \$8,700,000 U.S. income debenture	-	9,423,840
8% mortgage due January 15, 1979	75,000	150,000
8% mortgage due December 1, 1978	-	29,120
	<u>4,868,040</u>	<u>9,602,960</u>
Less: Due within one year	<u>75,000</u>	<u>104,120</u>
	<u>\$ 4,793,040</u>	<u>\$ 9,498,840</u>

The income debenture was converted on February 28, 1979 to a bank debenture loan which bears interest at the London Inter-Bank offer rate plus 1%. The Company's proportionate share of principal payments on the new loan are as follows:

February 28,	1980	(U.S.) \$	120,000
	1981		240,000
	1982		360,000
	1983		360,000
	1984		360,000
	1985		360,000
	1986		<u>2,400,000</u>
		(U.S.)	<u>\$4,200,000</u>

NOTE 6 - SHARE CAPITAL

On August 25, 1978, a two-for-one stock split was effected which increased the Company's authorized share capital from 5,000,000 to 10,000,000 shares and increased the issued share capital from 4,425,566 to 8,851,132 shares.

Under the Key Employee Stock Purchase Plan, the Company has agreed to advance funds to a Trustee to be used by the Trustee for the purchase and immediate resale to key employees of shares of the Company's capital stock at the average sale price of the Company's shares on the day immediately preceding the transaction. At December 31, 1978, \$2,186,903 was receivable by the Company (\$2,250,497 at December 31, 1977) under the Plan and is included in "Long-Term Receivables".

NOTE 7 - REMUNERATION OF SENIOR OFFICERS AND DIRECTORS

The remuneration paid to the senior officers of the Company in 1978 amounted to \$261,945 (1977-\$249,345) and directors' fees amounted to \$12,275 (1977-\$6,250).

NOTE 8 - DIVIDENDS

The Company paid its first dividends in 1978 which aggregated 15¢ per share for the year. An increased semi-annual dividend of 10¢ per share was declared on the outstanding share capital of the Company payable March 30, 1979 to shareholders of record at the close of business on March 15, 1979.

AUDITORS' REPORT

To the Shareholders of
Numac Oil & Gas Ltd.

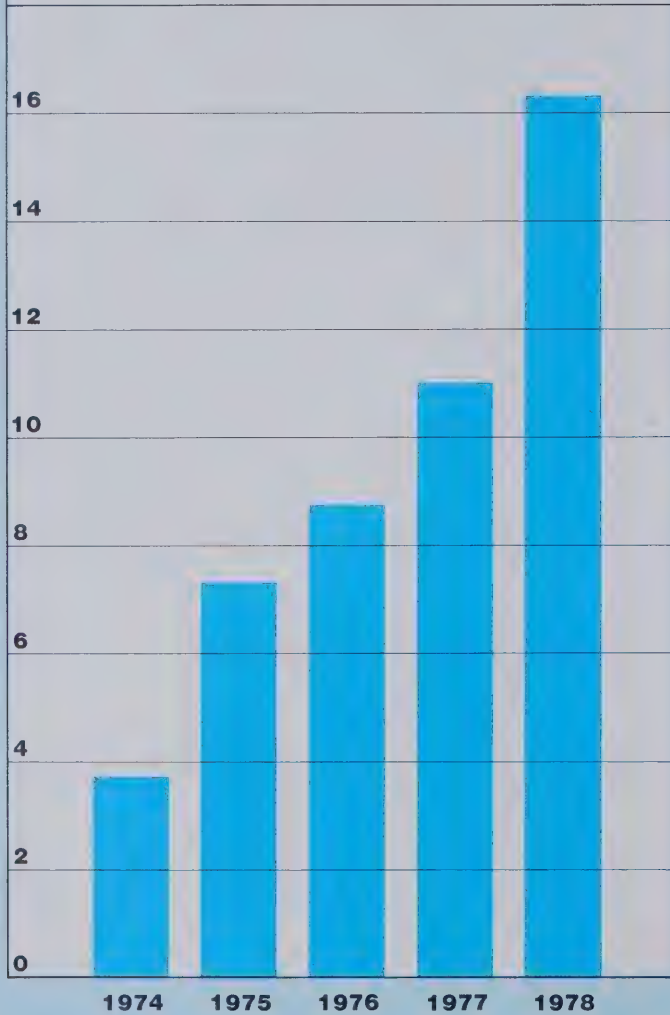
We have examined the consolidated balance sheet of Numac Oil & Gas Ltd. as at December 31, 1978 and 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

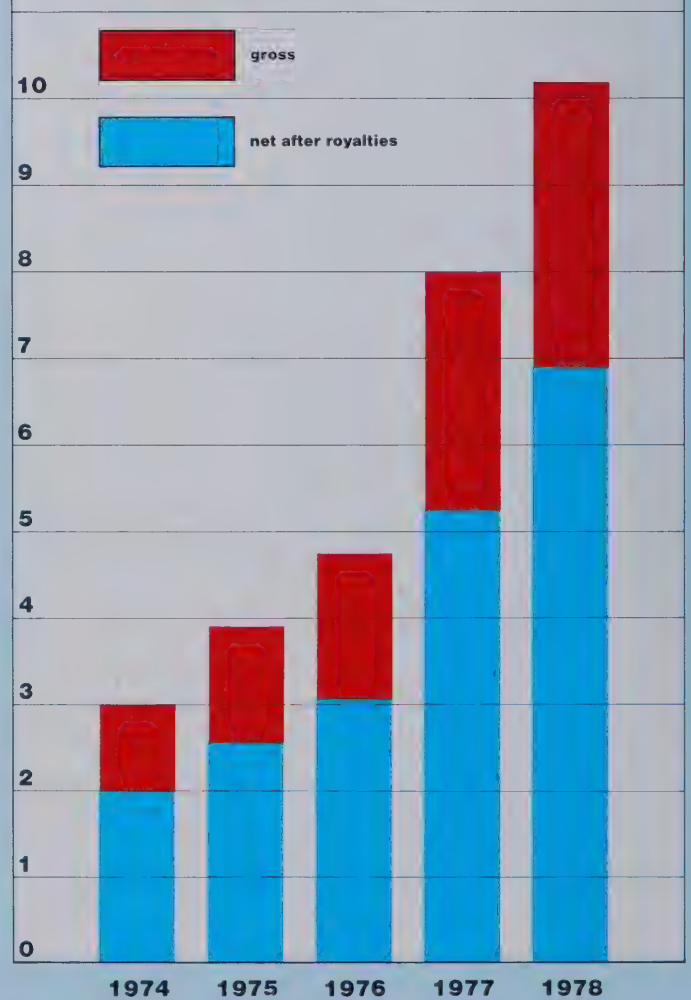
EDMONTON, Canada
March 14, 1979

WINSPEAR HIGGINS STEVENSON & CO.
Chartered Accountants

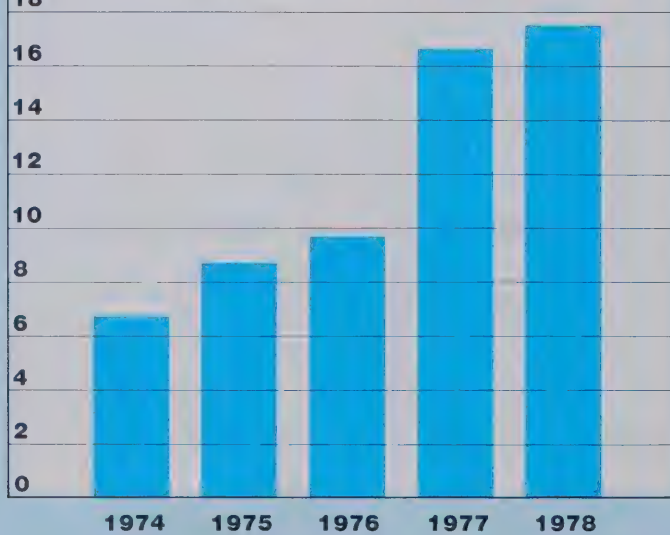
EXPLORATION AND DEVELOPMENT CAPITAL EXPENDITURES (MILLIONS OF DOLLARS)



OIL AND GAS REVENUE (MILLIONS OF DOLLARS)



GROSS REVENUE (MILLIONS OF DOLLARS)



MANAGEMENT DISCUSSION

1978 COMPARED TO 1977

The comparability of 1978 figures is impaired by the change in accounting treatment of Nu-Alta Developments Ltd. (see Note 2 to the Financial Statements) as 100% of the individual asset, liability, revenue and expense items were taken into the consolidated financial statements in 1977 as compared to only 60% in 1978. This change does not have any effect on Numac's share of net earnings from Nu-Alta.

Total revenue for the year is up 5% or \$874,000 despite the inclusion in current year's earnings of \$1,360,000 less from the Athabasca Oil Sands Agreement (see Note 3).

The increase in operating revenues reflects increased oil and gas prices and increased gas production. Natural gas production increased by 49% over 1977 to 2,694,000 mcf despite the major purchasers being in an oversupply position. Net oil and gas production revenue after royalty increased in 1978 to \$6,894,000, an increase of 30% over the \$5,310,000 in 1977. Nu-Alta rental revenue increased by 17% during the year; however, after the accounting change Numac's reported revenue from rentals decreased by \$630,000. The large increase in investment income is the result of receiving interest on the Oil Sands Agreement signed in December of 1977. Gains on sale of securities of \$528,605 have been reported in 1978 as a number of marketable securities were liquidated during the year at a profit.

Operating expenses increased by 25% during the year to \$3,324,000. 21% of this increase is attributed to higher operating costs in the oilfield construction division which moved much of its equipment out of the Arctic during the year.

Interest on long-term debt is entirely from the real estate financing and decreased significantly during the year due to the conversion of the debt to a lower interest rate Income Debenture in August of 1977. Of the apparent decline of \$535,000 the Nu-Alta accounting change is responsible for \$219,000. Other interest increased during the year by \$417,000 due to a high level of oil and gas exploration and development expenditures combined with an increase in average interest rates over 1977 of 13%.

Depletion increased over 1977 by \$287,000 because of higher gas production as well as a higher factor resulting from increased exploration expenditures.

Working capital decreased during the year by \$5,644,000 and a working capital deficiency of \$3,954,000 resulted at the year end. This does not cause any concern to management as the Company

is still in the enviable position of not having any of its petroleum or mining holdings pledged to secure loans. The only long-term debt of the Company is its share of the real estate financing which was \$4,793,000 at December 31, 1978.

The primary reason for the \$156,000 decrease in deferred income taxes is the higher proportion of oil and gas production revenue in earnings. Production revenue qualifies for certain income tax incentives which the other sources of income do not.

1977 COMPARED TO 1976

Total revenue for the year increased 70% to \$16,604,000 from \$9,784,000 in 1976. Oil and gas volumes and price increases accounted for production revenues increasing by 72% to \$5,310,000. The largest item contributing to the total revenue increase was the initial income from the Athabasca Oil Sands agreement which amounted to \$5,441,000. The real estate income decreased by 23% to \$2,162,000 due entirely to the sale of the restaurant in January 1977. Oilfield construction revenue decreased by 8% to \$2,924,000 because of decreased activity in the Mackenzie Delta.

Earnings before extraordinary items increased from \$2,461,000 to \$6,396,000. The write-off of the Company's investment in the Arctic Gas Study which amounted to \$1,002,000 and the \$31,000 gain on a land sale brought net earnings to \$5,425,000 up from \$2,615,000 in 1976. The only extraordinary item in 1976 was the \$154,000 gain on land sold.

Interest on long-term debt is entirely from the real estate financing and decreased by 22% to \$872,000 because of lower prime lending rates and from converting the debt to a lower interest rate Income Debenture in August of 1977. Other interest decreased by 9% to \$593,000 because of substantially lower interest rates during the year partially offset by increased oil and gas exploration and development activities. Depletion doubled in 1977 to \$980,000, mainly because of the large gas production increases, as well as a higher factor resulting from increased exploration expenditures.

Working capital at December 31, 1977 amounted to \$1,688,998 which is an increase of \$3,100,895 over the deficit of \$1,412,000 at the end of 1976. The agreement relating to the farm out of the Athabasca Oil Sands is the primary factor in this increase.

Numac Oil & Gas Ltd. and Subsidiaries

TEN YEAR REVIEW

FINANCIAL

(\$Thousands, except per share amounts)

	1978	1977	1976	1975	1974	1973
REVENUE						
Oil and gas division	\$11,320	\$11,129	\$ 3,374	\$ 2,851	\$ 2,081	\$ 1,588
Oilfield construction	2,946	2,924	3,165	2,731	2,568	2,516
Real estate	1,532	2,162	2,791	2,723	1,551	-
Investment income	1,680	389	454	394	481	498
TOTAL	17,478	16,604	9,784	8,699	6,681	4,602
EXPENSE						
Operating	3,324	2,679	2,958	2,506	1,747	910
General and administrative	597	482	450	420	322	282
Interest on long-term debt	337	872	1,122	994	701	-
Other interest	1,011	593	654	116	75	29
Depletion, depreciation and amortization	1,835	1,470	984	933	994	1,040
Income taxes - current	(816)	(672)	(404)	(381)	(253)	-
- deferred	4,580	4,735	1,539	1,734	1,177	944
Minority interest	-	49	20	32	26	-
TOTAL	10,868	10,208	7,323	6,354	4,789	3,205
EARNINGS BEFORE EXTRAORDINARY ITEMS	6,610	6,396	2,461	2,345	1,892	1,397
EXTRAORDINARY ITEMS - Net of Tax	34	(971)	154	-	-	-
NET EARNINGS	\$ 6,644	\$ 5,425	\$ 2,615	\$ 2,345	\$ 1,892	\$ 1,397
PER SHARE*						
Before extraordinary	\$ 0.75	\$ 0.72	\$ 0.28	\$ 0.27	\$ 0.22	\$ 0.16
Net earnings	\$ 0.75	\$ 0.61	\$ 0.30	\$ 0.27	\$ 0.22	\$ 0.16
CASH FLOW FROM OPERATIONS	\$12,846	\$12,576	\$ 4,942	\$ 4,998	\$ 4,060	\$ 3,362
PER SHARE*	\$ 1.45	\$ 1.42	\$ 0.57	\$ 0.58	\$ 0.47	\$ 0.40
CAPITAL EXPENDITURES	\$16,842	\$11,397	\$ 9,277	\$ 7,433	\$ 5,681	\$13,483
OPERATING PRODUCTION						
Oil - thousands of barrels	563	566	540	548	537	569
Gas - millions of cubic feet	2,694	1,811	232	35	39	49
WELLS DRILLED						
Completed	44	25	25	27	15	14
Abandoned	15	18	26	18	7	6
	59	43	51	45	22	20

*Per share amounts reflect August 1978 two-for-one stock split.

1972	1971	1970	1969
\$ 1,127	\$ 1,128	\$ 1,245	\$ 1,176
2,554	1,907	1,384	957
-	-	-	-
431	439	351	289
4,112	3,474	2,980	2,422

773	964	827	932
254	241	184	158
-	-	-	-
15	34	46	48
811	712	685	495
-	-	-	-
919	604	656	217
-	21	54	62
2,772	2,576	2,452	1,914

1,340	898	528	508
47	694	-	79
\$ 1,387	\$ 1,592	\$ 528	\$ 587

\$ 0.16	\$ 0.11	\$ 0.06	\$ 0.06
\$ 0.17	\$ 0.19	\$ 0.06	\$ 0.07

\$ 3,009	\$ 2,214	\$ 1,869	\$ 1,220
\$ 0.36	\$ 0.26	\$ 0.22	\$ 0.15

\$ 3,079	\$ 2,161	\$ 1,620	\$ 1,367
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456	454	558	532
50	30	10	-

10	8	3	8
6	10	1	6
16	18	4	14

FINANCIAL REVIEW

(MILLIONS OF DOLLARS)

■ CASH FLOW
■ NET EARNINGS BEFORE
EXTRAORDINARY ITEMS

14

12

10

8

6

4

2

0

1969 70 71 72 73 74 75 76 77 1978

NUMAC OIL & GAS LTD.

BOARD OF DIRECTORS

RALPH A BARD, JR., *Executive*
Chicago, Illinois

OLIN E. BUKER, *Consultant*
Calgary, Alberta

HADLEY CASE, *Chairman*
Felmont Oil Corporation
New York, N.Y.

ALEXANDER N. MacIVER, *Barrister & Solicitor*
Edmonton, Alberta

STEWART D. MCGREGOR, *Barrister & Solicitor*
Edmonton, Alberta

WILLIAM S. MCGREGOR, *President*
Numac Oil & Gas Ltd.
Edmonton, Alberta

JACK W. ROBBINS, *Senior Vice-President &*
General Counsel,
Pitcairn Incorporated
Jenkintown, Penn.

MARSHAL STEARNS, *Vice-Chairman*
F. H. Deacon, Hodgson Inc.
Toronto, Ontario

OFFICERS

WILLIAM S. MCGREGOR
President & Managing Director

DONALD F. BAKER
Vice-President, Engineering

RONALD D. LARMOUR
Vice-President & Treasurer

C. R. S. MONTGOMERY
Vice-President & Secretary

WILFRED J. WILSON
Vice-President, Exploration

ALEXANDER N. MacIVER
Assistant Secretary

Head Office

9915 - 108 Street, Petroleum Plaza - South Tower,
Edmonton, Alberta, T5K 2G8
Telephone (403) 429-1481

Registrars and Transfer Agents

The Royal Trust Company,
Edmonton, Montreal, Toronto
The Canadian Bank of Commerce Trust Company,
New York

Auditors

Winspear Higgins Stevenson & Co.,
Edmonton, Alberta

Solicitors

Jackson, Arlette, MacIver & Skitsko,
Edmonton, Alberta

Listed

Toronto Stock Exchange
American Stock Exchange

Numac Oil & Gas Ltd. was incorporated under the laws of the Province of Alberta on March 16, 1963. The Annual Meeting of Shareholders will be held at 9:00 a.m., June 27, 1979 in the Edmonton Plaza, Edmonton, Alberta.

